

KY COURSE 72: COMMERCIAL REAL PROPERTY APPRAISAL BY USE OF THE INCOME AND SALES COMPARISON APPROACHES

First Day Reading Assignment

Rev. 2005

CHAPTER ONE

THE APPRAISAL PROCESS

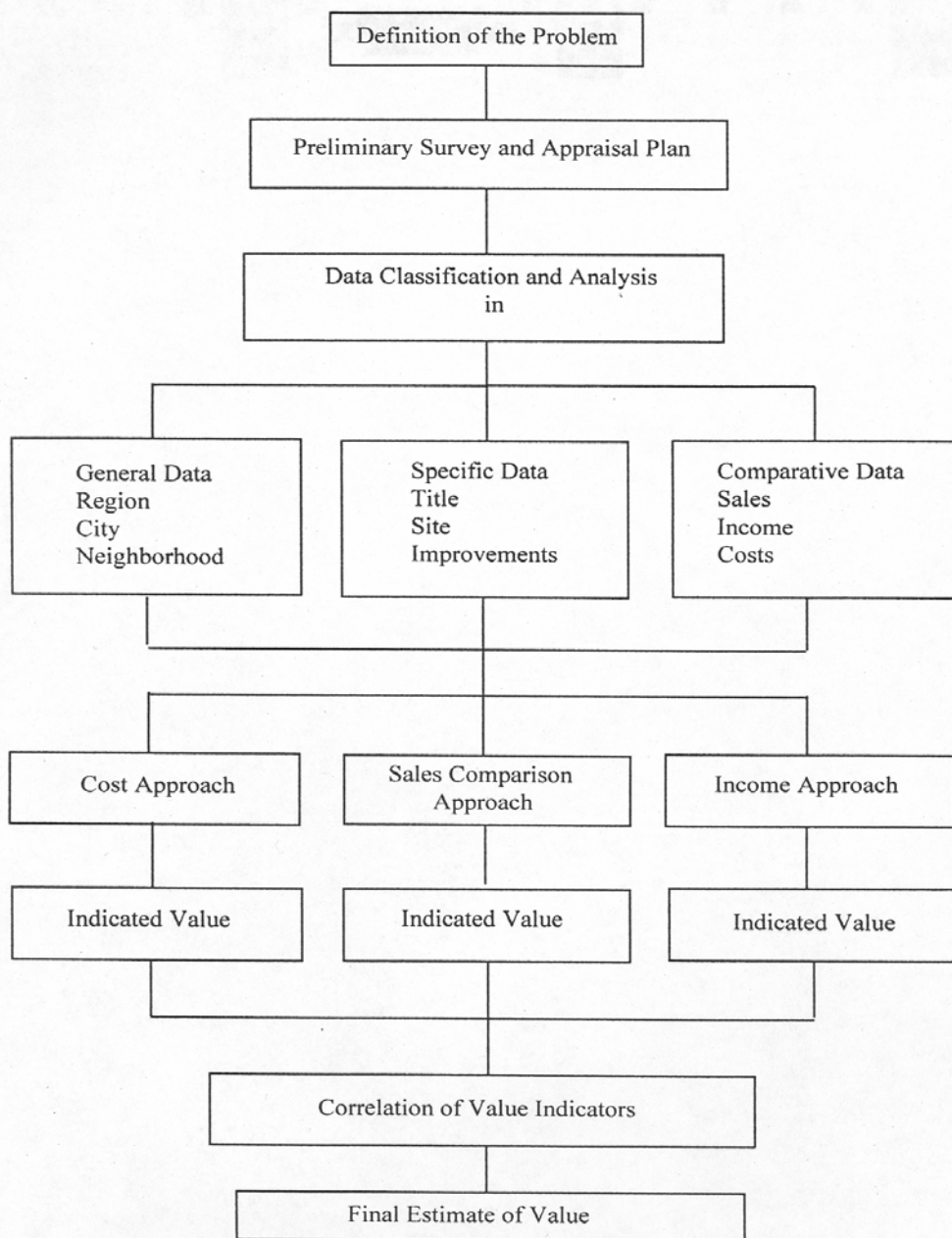
An appraisal is an estimate of value as of a given date. It encompasses a problem solving process that is logical, concise and thorough. By carefully following step by step appraisal procedures, a supportable estimate of value can be determined. The various steps involved in the appraisal process are illustrated on the following page.

The appraisal process depends on several variables including the nature of the property, the data available, and current market research. By applying valuation techniques to the relevant data, a correlated estimate of value can be reached.

To achieve the best estimate possible, the appraiser must systematically follow the logical steps in the collection and analysis of data pertaining to the subject property. The appraisal process consists of the following six steps:

- A. Defining the problem;
- B. Conducting the preliminary survey and appraisal plan;
- C. Collecting and analyzing data;
- D. Applying the three approaches to value;
- E. Correlating the value indicators;
- F. Arriving at a final estimate of value.

The Appraisal Process



A. Defining the Problem

An appraiser must know precisely what is being valued and for what reason before beginning the actual appraisal process. By meeting the following criteria, the definition of the problem becomes clear:

1. Date and estimate and value;
2. Objective of the appraisal;
3. Definition of value to be appraised;
4. Location and description of subject property;
5. Property rights being appraised from the following “bundle of rights”:

The right to:

- a. use
- b. sell
- c. lease or rent
- d. enter or leave
- e. give away
- f. refuse any of the above.

B. Preliminary Survey and Plan

Once the property to be valued has been identified, the appraiser can begin the planning stage of the appraisal. This includes the planning of personnel, time, data needed and data sources

available. The appraiser should begin to consider which approach to value will be most appropriate based on the most accurate information available.

C. Data Collection and Analysis

The next step in the appraisal process is collecting both general and specific data. General data refers to the various external forces that influence the value of property. These forces can be physical (location, parking, traffic patterns), economic (tax rates, population changes, competition, availability of financing), governmental (planning, zoning, building codes), or social (shopping attitudes, shopper's standard of living, level of income). Specific data encompasses information gathered from the actual site - the frontage, width, depth, shape, area, and other internal characteristics that affect value.

In addition to general and specific data, the assessor must also look at comparative data collected from other properties. This form of data includes information on properties that have been sold or are being rented and that are comparable to the subject property. Files containing information on sales, rentals, and cost estimates should be kept readily available in the assessor's office.

D. Application of the Three Approaches to Value

The three approaches to value (cost, sales comparison, and income) are based on three different concepts of value:

1. Cost - current cost of reproducing or replacing the structure, less depreciation, plus land value;
2. Sales Comparison - the value as indicated by sales of comparable property;
3. Income - the value that a property's net earning power will support, as indicated by the capitalization of its net income.

When possible, all three approaches to value should be utilized and the results compared and used as checks against each other. Most commercial and industrial appraisals do not lend themselves well to all three concepts of value, due to a lack of reliable market data.

Examples of these appraisals are:

1. Vacant land - the cost approach is not applicable;
2. Specialized property - impractical to use the sales comparison approach due to a lack of similar properties;
3. Owner occupied home - impractical to use the income approach.

E. Correlation of Value

The final step in the appraisal process is determining which value indicated by the three approaches is correct. The three values must never be averaged. More weight must be given to the approach that is most reliable and applicable to the specific appraisal problem. For example, if the cost figures for an older, downtown building are inconclusive, more weight should be given to the income and sales comparison approaches.